

Vinamilk international business

Business



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BUSINESS REPORT EXECUTIVE SUMMARY

This report is conducting a business plan for Vietnam Dairy Products Joint Stock Company (VINAMILK) to internationalize into Brazil market. The paper will look at the company capacity and competence to estimate the ability and level of success to expand business. For instance, VINAMILK product line and its market status in Vietnam will be identified and analysis in order to suggest the best product and potential market segment in Brazil. Then, the paper analyzes the new market by providing information about demographic, economic, consumption behavior, market growth, and competition of this Latin country. After, based on the statistics, the report will determine the best strategy and entry mode for the firm to enter the market as well as advantages and disadvantages of the chosen entry method. Furthermore, critical risk and financial factors will also be analyzed and forecasted. Finally, the report will be conducted in professional and dynamic way including full citation and reference.

VINAMILK

Background

Information

Being operated at first in 1976, VINAMILK has become the leading company in Vietnam dairy industry by owning 39% of total dairy market share even surpassed well-known brand Friesland from Netherland in 2010 (Figure 01). Further, VINAMILK is one of most successful MNEs earned revenue over US \$1 billion in two successive years 2011 and 2012 as officially became a

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member of the big enterprise community in the Asia Pacific Region (Figure 02). Although being in the recession of the world economy, VINAMILK still able to maintain a good and stable double digit growth potential in revenue and net profit (Nguyen 2012). According to Nguyen (2012), VINAMILK currently only focus in local market which gained about 85% of their annually revenue (Figure 03). However, VINAMILK has also exported products, mainly powder milk, to some of potential international markets such as Philippine, Iraq, Kuwait, UAE, Australia, the US etc (VINAMILK homepage 2012).

Moreover, VINAMILK has made large investment in building new factories to increase their own production capacity for responding against the global demand. For instance, VINAMILK production capacity jumped up from 1. 11 million tons in 2012 to 1. 66 million tons at the beginning of 2013 (Figure 04). Those strengths have contributed to create a great opportunity for VINAMILK to prepare a new multinational expansion. Product Description

VINAMILK offer more than 200 dairy products grouped into 5 categories. 1.

1. Powder milk
2. Lipid milk
3. Condensed milk
4. Yoghurt, ice-cream, cheese
5. Soy milk, fruit juice, beverage

Product line

Groups of target customers

Business status in Vietnam

Advantages

Disadvantages

Powder milk

Pregnant

Babies

Kids

VINAMILK came in second with 19% of total powder market share (Figure 05). The most profitable product line with high gross margin.

Huge competition.

Fewer choices.

Lipid milk

Standard and low-income families

Kids

Teenager

The leading company with 41% in market share (Figure 06).

The most standard products with stable profit margin and market growth.

Require significant capital to maintain market share.

Condensed milk

Standard and low-income families

Kids

VINAMILK dominate the market with 88% ownership.

Less competition due to high barrier of entry.

Large investment

Low gross margin (13%).

Low growth rate (2-3%).

Yoghurt, ice-cream, cheese
 Standard and low-income families
 Kids

Teenager

The largest market share owner with 71%.
 Less competition due to high barrier of entry.
 Heavy investment in coolers and transportation vehicles.

Soy milk, fruit juice, beverage

Standard and low-income families
 Kids

Teenager

VINAMILK has continued to gain market share in this category. Plenty of
 different packages and favors
 Significant gross margin.
 Very competitive market.
 Require lot of capital to maintain.

Table statistics are collected from Nguyen (2012).

MARKET

OUTLOOK

Target Segmentation & Objectives

South America Region especially Brazil should be one of potential markets
 for VINAMILK in the future. In order to expand in this new market, VINAMILK
 will focus in 2 main categories powder milk and lipid milk which target
 mainly standard and low-income families, babies, kids, teenager and
 pregnant woman. Business objective is 10% achievement of Brazilian dairy
 market in 3 years time. Macro-environmental Analysis

Demographic

Brazil is the fifth largest country in both area and population with about 200 million heads and 8, 514, 877 km² for both land and water (CIA 2013). According to CIA (2013), Brazil population is expanding constantly with 0.86% in 2012 and constructed with a young age structure, 30.9% in 0-24 years, which made up a very potential market segment for VINAMILK. In addition, high birth rate of 15.2 births/1,000 populations may be a benefit for powder milk product line to get closer the community. Moreover, there is 87% total population current living in urban areas contributed higher demand for dairy products (CIA 2013). Therefore, main target market would be 2 major cities Sao Paulo and Rio de Janeiro which made up 15% of national population. Economic

According to the World Bank (2011), Brazil GDP was over US \$2.4 trillion with made up their average income US \$10,000 per capita. Due to global financial crisis and high inflation, Brazil GDP growth rate stayed slow at 1.3% in 2012, though their average GDP growth in 25 years time is still the highest one with 7.5% throughout the planet (CIA 2013). Further, Mr. Braga, the Professor of International Political Economy at IMD, forecasted that Brazil economy growth would stay on a right track and keep increasing 3-4% in the next three years (2012). The steady growth in national GDP has positive influence on purchasing power per capita directly affected the willingness of buying dairy products. Consumption Behavior

Brazilian people consider milk as one of their important nutritious source and daily drinking milk has become their culture habit. According to a research conducted in Brazil (e Castro 2005), carbonated beverages especially milk

products are present in 99.4% of households and become the most frequency shopping items weekly. The research followed a result from a non-probabilistic sampling procedure used with quotas considering national age and income variables, showed that 39% of consumers usually drink milk for breakfast and 45% of them regularly do the same thing right before bed (Figure 07). Further, the study presented a high milk consumption frequency in Brazilian household, to be specific 66% of sample drink milk at least 6 times weekly while only 9% of them done it once per week (Figure 08).

Market Status & Forecast

NZ Trade & Enterprise indicated an estimate of Brazil dairy market consumption was 28 billion liters in 2011 and properly would increase 30% more in volume in a decade (2013). The study also forecasted dairy consumption should grow at a rate of 2% annually in coming years. However, Index Mundi (2012) claimed an even interesting statistic by showing that dairy domestic consumption annual growth rate for fluid and lipid milk had an average 3% in the last 4 year (Figure 09). Another study by Mr. Krijger (The World Dairy Situation 2012) presented Brazil being one of few countries consumes lipid milk over 50kg per annual (Figure 10). The research followed a rapid increase in dairy consumption in BRIC (included only Brazil, Russia, India & China) by 16.1% per capita in 2005-2011 comparing to the world's only 5.7% (Figure 11). Additionally, Krijger stated that growth rate of Brazil daily product consumption is stable and very less impact by gross national income (GNI). Figure 12 showed a long-scale table consisting GNI and dairy consumption components in Brazil since 1961 till 2011, and it indicated a strong stability of dairy consumption all the way long unaffected by GNI

(Krijger 2012). Thus, VINAMILK is standing in front of a good opportunity to invest their capital and expand the business in this Latin country in order to attract and gain benefit from this potential and profitable group of new consumers. Competition

Nestlé S. A. is the world's leading nutrition Switzerland-based MNE selling a huge variable range of food and beverage categories targeting standard and upper income families (Nestlé homepage 2013). In Brazil, Nestlé S. A. has a very wide and effective distribution and retail channel which contributed to domination of 38% of total national dairy market (IMF 2013). Brasil Foods S. A. is the second largest Brazil-based food company in revenue, only after the giant neighbor as well as their direct competitor JBS S. A. The firm is present in over 110 countries and has 60 industrial plants in Brazil and four worldwide along with 36 distribution centers and 24 offices throughout the nation targeting general customers in the market (Brasil Foods homepage 2013). Brasil Food S. A. currently owns 25% of national dairy market (IMF 2013). JBS S. A. is the largest Brazilian MNE of producing fresh meat and dairy products. In 2007, the firm acquired US-based firm Swift & Company for US \$225 million to become the world largest company in beef sector (JBS homepage 2013). However, JBS S. A. does not very concentrate in by-products such as milk, cheese and butter in their home market. Therefore, the firm currently owns about 15% of the dairy market (IMF 2013). Groupe Danone is a French food-products multinational corporation selling mainly fresh dairy products, beverage, cereals and biscuits (Groupe Danone homepage 2013). The firm targets a special group of kids and babies in medium and high-income families. Currently the company takes control 8%

of market share (IMF 2013). Parmalat SpA, an Italy-based MNE, is the last direct competitor of VINAMILK. The firm specializes in UHT milk and other milk derivatives such as yogurt, cheese, butter, ice cream, etc. targeting a market segment of families, kids and teenagers (Parmalat homepage 2013). Moreover, the company is also interesting in fruit juice product line in order to strengthen their position in this new Latin market. In 2013, Parmalat achieved only 5% of national dairy market (IMF 2013). Last but not least, there are many indirect competitors came from family businesses or small farms producing standard or low-quality dairy products which contribute 9% of the whole market (IMF 2013).

Situational

Analysis

Figure 13 indicates the current market share of dairy industry in Brazil which contributed by Nestlé S. A. (38%), Brasil Foods S. A. (25%), JBS S. A. (15%), Groupe Danone (8%), Parmalat SpA (5%) and other small group of family businesses & farms (9%). Figure 14 shows the position and target customer of direct competitors of VINAMILK in the market. It indicates that Nestlé S. A., JBS S. A. and Groupe Danone are competing for a prestige segment of upper-class and high income people while Brasil Foods S. A. and Parmalat SpA are focusing in standard segment consisting medium-class customers. Therefore, VINAMILK should consider to target economy segment which include people has lower income and low purchasing power. BUSINESS MODEL

Business

Strategy

VINAMILK would apply localization strategy in order to gain competitive advantage in Brazil. The mean of this strategy is to generate customer recognition for the brand by customizing dairy products based on local taste

and preferences (Hill 2008). Nevertheless, Hill suggested that localization should only be applied in where cost pressure is not very intense because product customization would limit the ability of capturing cost reductions (2008). In this case, Brazilian usually set quality factor of dairy products over their price as the most considered attributes at the time of choosing which milk to buy. Back to the study sample in Brazil (e Castro 2005), the research showed 50% of consumers find the brand an important factor for milk while only few people tended to buy milk based on price. Furthermore, the study also presented that many people in Brazil often drink milk mixed with different favor especially chocolate powder 45%, following by coffee 21% (Figure 15). Therefore, localization strategy is the best choice for VINAMILK to establish their presence in Brazil market. Entry Mode

Starting a business in international market never is an essay task due to the difference in legal and regulatory regimes, cultural norms, language problems, and currency issues etc (Ehrlich & Stewart 2006). Only a few of large enterprises who have great amount of resource and experience may able to overcome those obstacles by their own. Other smaller companies, VINAMILK for example, has to find their own way to establish their presence in the new market. A common method is to cooperate with local business firms to form alliances though a joint venture agreement. According to Hill (2008), joint venture can be defined as an entry mode for a foreign company to expand in local market by forming business partnership with existing firms. These businesses often exchange resources, share risks and divide reward from the joint enterprise. Moreover, Ehrlich & Stewart (2006) claimed that contribution among those joint ventures also differ as the local partner

usually supply physical space, distribution channels, sources of supply, market knowledge and information etc while the foreign one provide financial access, key personnel, technology knowledge and experience etc. In this case, JBS S. A. is a potential joint venture for VINAMILK because this Brazil-based enterprise has a good local market knowledge and competitive condition of owning 15% of national dairy market (IMF 2013). Further, the two companies are not directly competing each other due to different target market segments. Advantages

VINAMILK may immediately gain some benefits for their international business through joint venture entry mode. At first, VINAMILK will have a faster and effective access to the local market because JBS S. A. already established itself in the marketplace and also obtained competitive advantages such as government contacts, regulatory approvals, scarce supplies and utilities, qualified employees, and cultural knowledge etc (Hill 2008). Further, VINAMILK has a good opportunity for accessing their local partner's market knowledge and distribution network and other necessary resource for competing in Brazil (Ehrlich & Stewart 2006). Last but not least, joint ventures may also gain benefit by sharing their development costs or risks of establishing a new market.

Disadvantages

Although joint venture entry mode is beneficial for both foreign and local firms, there are also some major disadvantages that both ventures. First, both companies may give away their technology knowledge to its partner by the way risking themselves to lose control over it. Additionally, Hill (2008) stated that the shared ownership arrangement can also lead to conflicts and

battles for control between joint local partners and the investing firms over their own strategy and goals. If these conflicts are getting more serious, it would eventually result the dissolution of the venture between VINAMILK and its subsidiaries. Finally, VINAMILK may not have a tight control over their subsidiary, JBS S. A., and it would directly affect on the firm's strategies for competing overseas (Hill 2008).

CRITICAL RISK ANALYSIS

The report uses SWOT analysis tool to determine internal and external factors that contribute for achievement of VINAMILK's objective. The internal factors will include the firm's strengths and weaknesses while the external factors consisting opportunities and threats. Strengths

Weaknesses

High quality dairy products.
 Products are customized to fit local taste and preference.
 Business located in major cities lead to greater demand.
 Competitive selling price.
 Lack of experiences in local market.
 Poor regulation.
 Brand name is not well-known.
 Undifferentiated products than competitors.
 Low culture knowledge.

Opportunities

Threats

High demand in new market.
 Profitable market segment.
 Easy Access marketing expertise and local knowledge from joint venture.

Steady dairy market growth.
 Little direct competitors for the same target segment.
 Very competitive market.
 High pressure on local responsiveness.
 Competitors have much better resource, experience and knowledge.
 Competitors have superior in channels of distribution.

FINANCIAL BUDGET FOR THE YEAR END 2014

INCOME

US

\$

Sales

Quarter

1

100,

000

Quarter

2

100,

000

Quarter

3

100,

000

Quarter

4

100,

000

Other

Total

Sales

400,

000

Cost of Goods

Beginning

Inventory

150,

000

Goods	Purchased	or	Manufactured
120,		000	
Shipping		Charged	
3,		000	
Labor			
Other			
(-)	Ending		Inventory
80,		000	
Cost	of	goods	sold
193, 000			
Gross		Profit	
207, 000			
Non-Operating Income			
Interest		Income	
800			
Rental Income			
Gifts Received			
Donations			
Other			
Total	Non-Operating		Income
800			
Total		INCOME	
207, 800			

EXPENSES

US

\$

Operating Expenses

Accounting

&

Legal

500

Advertising

1,

500

Depreciation

Insurance

5,

000

Interest Expense

Maintenance

&

Repairs

900

Office

Supplies

400

Payroll

Expenses

20,

000

Postage

100

Rent

12,

000

R&D

Salaries

&

Wages

65,

000

Taxes	&	Licenses
2,	000	
Telephone		
800		
Travel		
Utilities		
Web	Hosting &	Domains
250		
Other		
Total	Operating	Expense
108, 450		
Non-Recurring Expenses		
Furniture,	Equipment &	Software
600		
Gift Given		
Other		
Total	Non-Recurring	Expenses
600		
Total	EXPENSES	
109, 050		
Net	Income	Before Taxes
98,	750	

Income	Tax	Expense
29, 625		
NET		INCOME
69, 125		

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